LEGISLATIVE AFFAIRS

Department of Justice
Washington, D.C. 20530

Honorable Peter W. Rodino, Jr.
Chairman, Committee on the
Judiciary
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

This is in response to your request for the views of the Department of Justice on H.R. 6249, the "Uniform Federal Research and Development Utilization Act of 1977."

The proposed legislation purports to establish a uniform system for, among other things, the allocation of rights in inventions flowing from federally-funded research and development. Its principal -- and most controversial -- feature is the granting to private contractors of title to inventions resulting from federally-sponsored R&D. The bill would also grant federal employees greater rights in their inventions. (Title III). Title V would repeal numerous existing statutory provisions dealing with the allocation of rights in federally-sponsored inventions.

The Bill and Its Effect on Existing Law

Chapter 1 of Title III appears to adopt what is known as the "license" policy with regard to inventions developed in the course of federally-sponsored R&D. The bill provides that if a government contractor chooses to file a patent application on an invention stemming from government-financed work, and declares that he intends to commercialize the invention, title would go to the contractor subject to a royalty-free, non-exclusive license to the government. (Secs. 312-14). Under the bill, the government would also be able to require the contractor to grant licenses or to grant licenses itself, on reasonable terms if the invention is not being worked, or if necessary to meet certain public needs. (Sec. 313(a)(2)). Such licensing conditions imposed on a contractor are generally referred to as "march-in" rights.

The "march-in" provisions would authorize the contracting government agency to require the granting of licenses or, if the contractor refuses, to grant licenses itself, when the contractor has not taken (or is not expected to take within a reasonable time) effective steps to achieve practical application of the invention in the relevant field of use. In addition, the agency may take such action if necessary (1) to alleviate health, safety, or welfare needs not reasonably satisfied by the contractor or its licensees, (2) to meet the public's need for the invention, as required by federal regulation, if it is not reasonably satisfied by the contractor or its licensees, or (3) to rectify certain generally identified anticompetitive effects of exclusive rights to an invention.

Presently there is no general legislation that controls all government agencies in the disposition of rights to inventions stemming from federally-sponsored R&D work. The Congress has acted, however, in a number of instances with respect to particular agencies or subject matter. In all of these cases, the particular legislation has provided that title to inventions resulting from such R&D is normally to be retained by the government, but waiver of title is permitted in certain situations after evaluation of various factors, including the effect of waiver on promoting commercial utilization of such inventions. 1/ There are no statutes providing that title should be given directly to the contractor. The 1971 Presidential Statement of Government Patent Policy governs areas in which the Congress has not acted. It specified fields in which the government would take title and those in which it would take only a license. Regulations by various agencies implement this Policy.

The present bill would repeal all of these provisions, and generally provide that title to inventions shall be given to the contractor.

1/ See, for example, the Nonnuclear Energy Research and Development ("ERDA") Act of 1974 (42 U.S.C. 5901, 5908).

In general, the disposition of federal employee inventions is now governed by Executive Order 10096, 2/ in which all rights to employee inventions are in the government if the invention is made as part of official duties. Where the agency determines that the contribution of the government is insufficient to justify title to the invention, it may vest title in the employee, subject to a non-exclusive, royalty-free license in the government.

The bill apparently would modify this policy by granting federal employees title to those inventions made with a government contribution, subject to a paid-up license in the government.

Discussion

For many years a controversy has existed between the advocates of the so-called "title" and "license" policies regarding the disposition of rights in inventions made under federal R&D financing. Under the "title" policy, the government takes title to inventions resulting from government-financed R&D, and private interests may utilize the inventions through non-exclusive licensing or dedication of patents. Under the "license" policy, the contractor is given title to such inventions, with a royalty-free license in the government.

For the last 30 years, this Department has supported a "title" policy. The basic reasons for favoring this policy (most recently outlined by the Department in 1974,) 3/ are several.

First, when public monies are expended, the public as a whole should benefit, as it would from the availability of non-exclusive, non-discriminatory licenses to qualified applicants, resulting in maximization of the invention's use and implementation.

2/ 3 C.F.R. at 292, January 23, 1950. E.O. 10096 embodies the recommendations contained in the Attorney General's Report of 1947 to the President, entitled "Investigation of Government Patent Practices and Policies".

3/ Statement of then Assistant Attorney General Kauper on H.R. 6602 before the Subcomm. on the Environment of the House Comm. on Interior and Insular Affairs, 93rd Cong. (1974).

Second, there is serious question as to whether any worthwhile purpose would be served by giving a contractor the right to exclude competitors from patentable inventions arising out of government-financed research. Rather, such rights may be in the nature of a windfall, at public expense, to a contractor whose contract price does not (and may not be able to) take account of speculative invention and patent possibilities. When the government underwrites R&D risks, the government -- that is the public -- should be entitled to any invention rewards.

Third, there has been no convincing showing that exclusive rights in government-financed inventions need be granted to contractors in order to induce them to accept government R&D contracts, which themselves confer many benefits beyond the simple contract price.

An apparent objective of H.R. 6249, in addition to establishing an uniform patent policy, is "to permit the early development and commercial utilization of resulting inventions." 4/ We do not believe that the general approach taken in H.R. 6249 would necessarily serve such a purpose. In fact, available evidence is to the contrary. The question of patent rights as an incentive to commercial utilization of inventions (as well as other issues) was the subject of a 18-month study by Harbridge House, Inc. 5/ That Report concluded that for most categories of firms participating in government-financed R&D programs, ownership of a patent as a prerequisite for new product development was generally a secondary or incidental factor in the decision to commercialize an invention, compared with market considerations and investment requirements. 6/

4/ Introductory remarks of Congressman Thornton, Cong. Rec., April 6, 1977, at H3149.

5/ Final Report of Harbridge House, Inc. to the FCST Committee on Government Patent Policy, "Government Patent Policy Study" (1968).

6/ Id., Vol. I, at vi-vii. The study did indicate circumstances in which exclusive patent rights in contractors could, on balance, promote commercial utilization better than title in the government, see Vol. I at vii, which suggest the wisdom of the flexible approach to the title policy discussed infra.

The Harbridge Report provides the only extensive study of the subject, and we do not believe that the findings of that Report provide support for the adoption of a uniform "license" policy, as reflected in H.R. 6249. Moreover, we do not believe that "march in" provisions along the lines of those contained in H.R. 6249 can be relied upon to protect the public interest for purposes of accepting a generalized "license" policy. The exercise of such rights by agencies would not be a simple matter, particularly where administrative hearings and de novo judicial review would be involved. For example, trying to show that exclusive rights to an invention in the contracts "have tended substantially to lessen competition or to result in undue market concentration in any section of the United States in any line of commerce to which the technology relates" would be tantamount to getting involved in a miniature Clayton Act-Section 7 trial.

An agency would have no real assurance of the outcome of its attempted exercise of "march-in" rights, nor indeed the potential investment of time and resources that such would entail. Given the costs involved, the numbers of patents that might be involved, and the varying interests and expertise of the many federal agencies in the areas of public interest described in the "march-in" provisions, we think it unrealistic to assume that the public interest would be adequately protected, assuming even the highest motivation on the part of all concerned.

Finally, the time delays inherent in any ultimately successful exercise of "march-in" rights in a really important case could well be intolerable.

The ERDA Act represents the most recent enactment of a more flexible title-waiver policy. That Act basically provides for title in the government at time of contracting or in the course of any contract, 7/ with provision for waiver under stated conditions, retention of government "march-in" rights under waiver, and exclusive or partially

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7/ See 42 U.S.C. 5908(c) and (d). Section 5908(c) provides that the agency may waive title "to any invention or class of inventions made or which may be made . . . in the course of or under any contract" taking into account four objectives, including "promoting the commercial utilization of such inventions" and "fostering competition and preventing undue market concentration or the creation or maintenance of other situations inconsistent with the antitrust laws."

exclusive licenses under government-owned patents in specific circumstances. The advantage of the waiver approach is that it provides the agency with the flexibility to grant contractors title to inventions under conditions that may foster commercial utilization, while limiting the scope of the burden of enforcing the "march-in" provisions.

Based on one year's experience, ERDA concludes, as follows: 8/

> From our limited experience we have concluded that the statutory requirements concerning the allocation of invention rights, which require title to be vested in ERDA while providing the authority to waive this requirement where appropriate, cannot at this time be said to have significantly impaired our ability to accomplish our program. These requirements appear to be workable. The flexibility provided by the waiver authority has been of value in resolving contractual problems, and we foresee that our implementation of the waiver authority will be an important element of a viable patent posture for our agency. However, the waiver procedures required by the statutes do create an administrative burden on the Government and the contractor and might need to be streamlined in the future.

This flexible title-waiver policy, as contained in the ERDA Act, represents a much sounder approach to fostering commercialization of inventions, while generally permitting access to government-sponsored technology and fostering competition.

With respect to government employees, we are not aware of any difficulties or inequities disclosed during the 27 years of operation under Executive Order 10096 that would call for changing the criteria specified in that provision.

8/ ERDA, The Patent Policies Affecting ERDA Energy Programs, (1976), at 2.

the point is that there isn't a uniform policy

We believe that the existing federal policy is sufficiently flexible in providing an agency with discretion to leave employees with title in circumstances where the government contribution is not significant.

The Department of Justice recommends against enactment of this legislation.

The Office of Management and Budget has advised that there is no objection to the submission of this report from the standpoint of the Administration's program.

Sincerely,

Patricia M. Wald
Assistant Attorney General